

AR31

OMEGA



ANNUAL REPORT
1979

OMEGA

HYDROCARBONS LTD.

corporate information

Directors

T. Jack Hall, Calgary

Dr. John Duby, Calgary

D. M. Mawdsley, Calgary

Officers

President — T. Jack Hall

Secretary-Treasurer — Bonnie C. Hall

Head Office

Suite 630, 330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

Auditors

Thorne Riddell
Chartered Accountants
1200 Bow Valley Square 2
205 - 5th Avenue S.W.
Calgary, Alberta T2P 2W4

Registrar

The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6

Transfer Agents

The Canada Trust Company
505 - 3rd Street S.W.
Calgary, Alberta T2P 3E6

Solicitors

Howard Dixon & Mackie
3rd Floor, One Calgary Place
330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

Main Bankers

Toronto Dominion Bank
2 Calgary Place
340 - 5th Avenue S.W.
Calgary, Alberta T2P 2P6

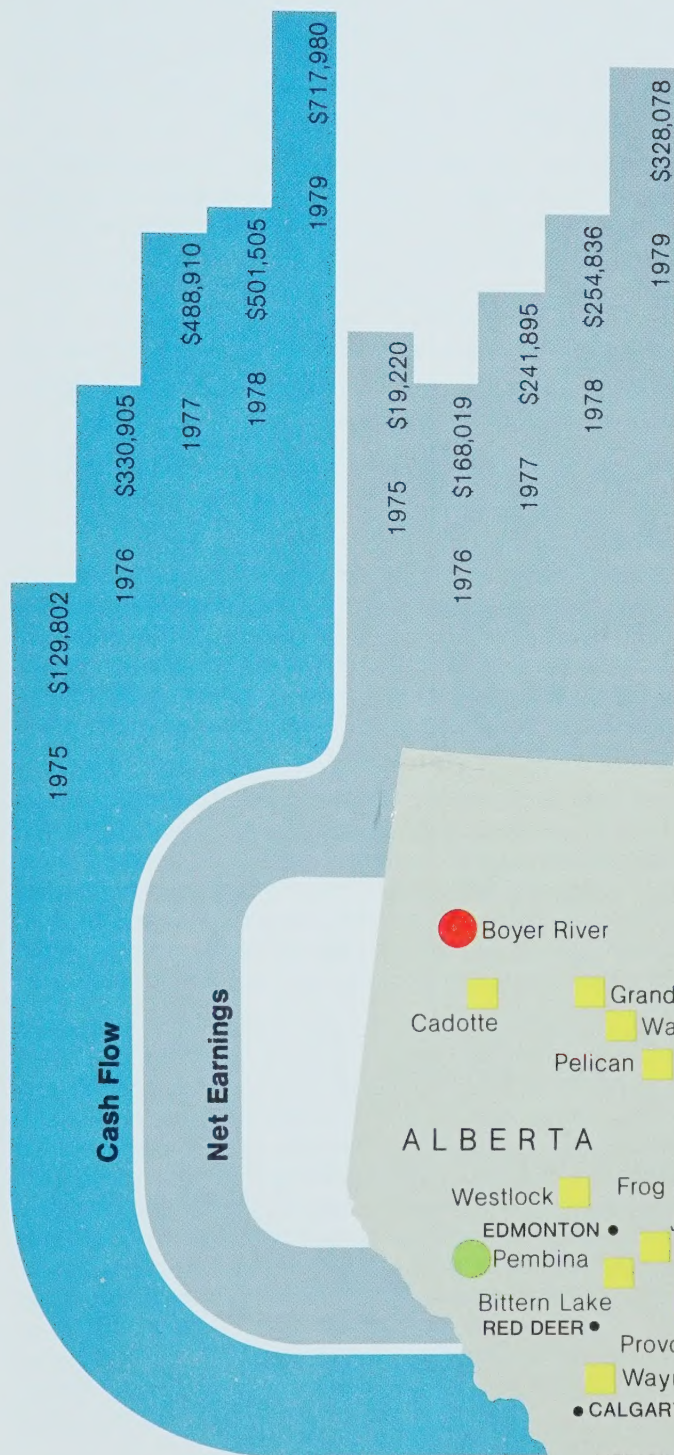
Annual General Meeting

The Annual General Meeting of the shareholders of Omega Hydrocarbons Ltd. will be held at The Calgary Inn (Lakeview Room) at 4th Avenue and 3rd Street S.W., Calgary, Alberta on Thursday, the 29th day of May, 1980 at 3:30 p.m. (local time).

Cover :
Evaluating perforations at Wayne 6-4-29-19.

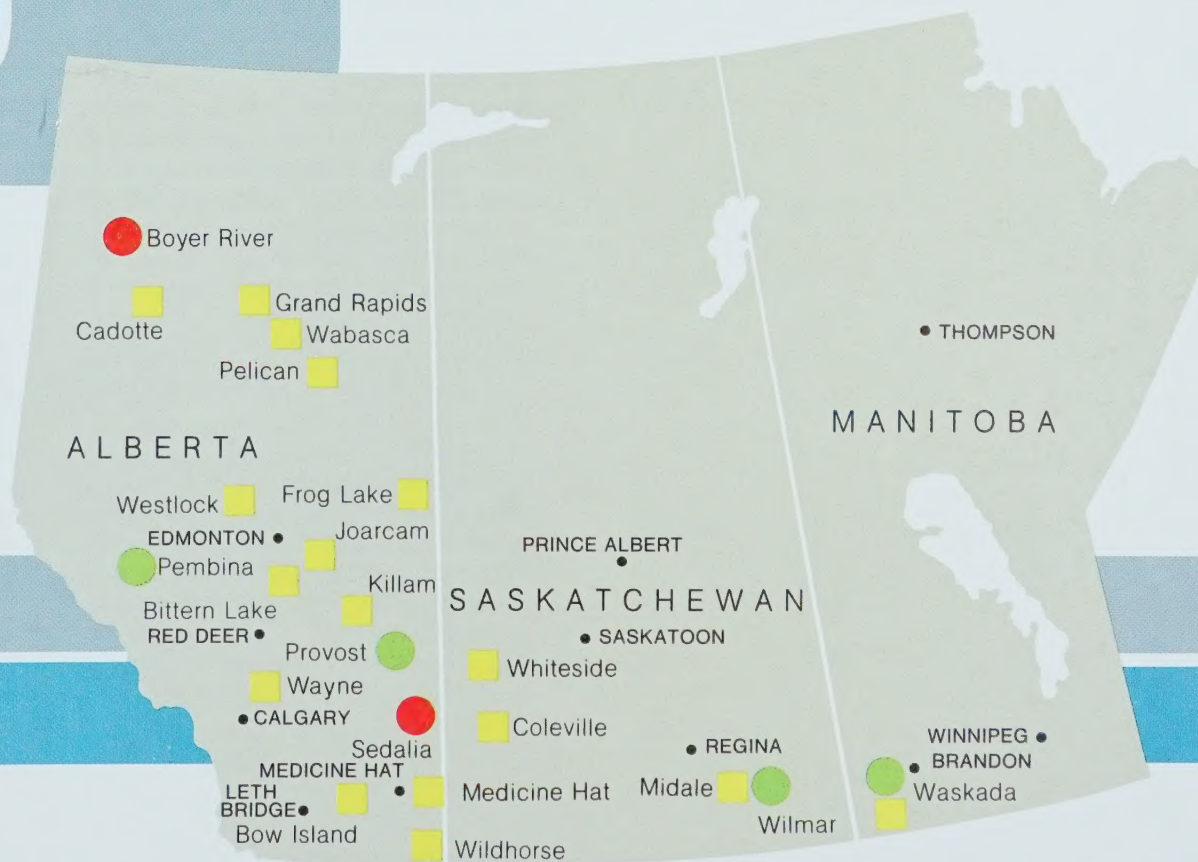
Prospectus closing date October 19, 1979.



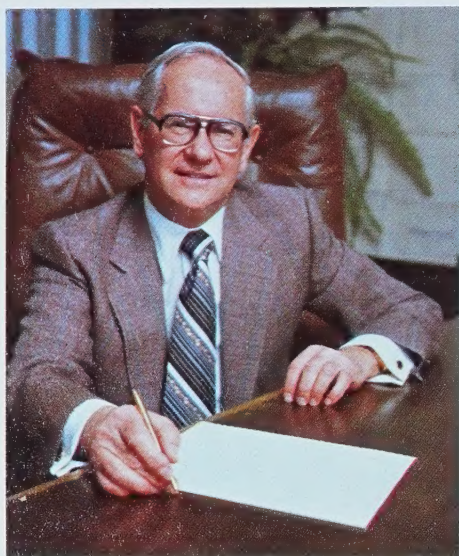


highlights

- Omega Interest Lands
- Omega Oil Production
- Omega Gas Production



to our shareholders



T. J. Hall, President

The year 1979 was the most successful and rewarding period in your Company's history. Substantial progress was made toward accomplishing our corporate objectives of profit improvement and additions to crude oil and natural gas reserves, while at the same time increasing land holdings and exploration objectives.

In our 1978 annual report, we predicted continued improvement in revenue, cash flow and earnings in addition to an increase in capital and exploration expenditures. The 1979 results bear out that prediction but still fall short of stated objectives.

- Revenue up 64% to \$1.1 million
- Cash flow from operations increased 43% to \$718.0 thousand
- Net earnings before extraordinary items rose 29% to \$328.1 thousand

Improved financial results were largely due to increased oil production from the West Provost area of Alberta where further increases are forecast for subsequent years.

Exploration and development drilling during the year was the largest and undoubtedly the most successful in the Company's twenty year history. Capital expenditures increased 259% to a record \$4.1 million, nearly all of which was spent in Alberta. Land acquisition costs increased 247% to \$700 thousand including the purchase of additional exploratory rights at Boyer and Provost, both areas of intense company activity.

Working capital at year-end was \$2.0 million. This healthy financial state of affairs during a period of high inflation and unprecedented interest rates places the company in an envious competitive position. These funds are the unexpended portion of a recent underwriting of treasury shares, in which Omega entered into an agreement with Bache Halsey Stuart Canada Ltd. to accommodate the distribution to the public of 1.0 million shares for a gross return of \$6.1 million.

Discoveries during the last half of 1979 were made in three areas of Alberta. The first to be announced was a prolific single zone discovery of gas at North Joarcam in central Alberta, whereas the second and most rewarding find was a multi-zone discovery at Miquelon Lake in the central east Joarcam area. A third discovery was made on a six section block of land at Frog Lake located in the northeastern part of the Province where a gas zone yielded a flow of 1.7 million cubic feet per day on drillstem tests. Omega's interest in these discoveries varies from 10% to 50%. Subsequent to the discoveries, Omega was successful in purchasing a substantial amount of Crown lands offsetting all three properties.

During the second and third quarters of 1979, the Company participated in a thirteen well development drilling program at West Provost, resulting in twelve pumping oil wells and one suspended gas well. The latter is now scheduled for recompletion in the oil producing zone later in the current year. This successful program contributed substantially to Omega's proven oil and gas reserves, and at the same time provided a number of attractive offset locations to be drilled this year. The West Provost property now encompasses eighteen oil wells, two shut-in gas wells and two suspended gas - oil wells while the oil wells are being studied as candidates for waterflood. Should a secondary recovery program become feasible, the Company's reserves will undoubtedly increase by a substantial margin. A large capital program is scheduled for the second and third quarters of 1980.

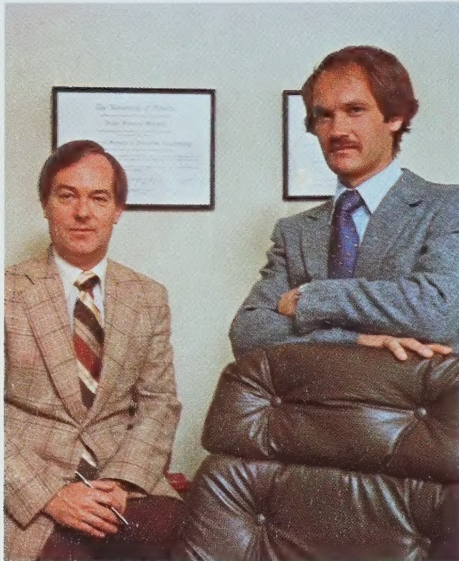
At year-end, we were successful in contracting a drilling rig for the Boyer winter drilling program which has now moved out of the area to firmer ground. Twenty-one wells were drilled without a failure, resulting in a total well count of twenty-nine gas wells. Twenty-one of these are now connected to the gathering system and producing. A substantial reserve of gas has been uncovered, the extent of which will not be known until further drilling takes place in 1981. The rewards of this development will be better known after reserve redetermination proceedings in July of this year. Boyer is without question one of the most significant developments in terms of projected cash flow covering the next several years.

This year we will see a substantial increase in crude oil and natural gas sales despite some impact from the lack of markets for natural gas. The higher volume coupled with expected price escalations should enable Omega to attain a cash flow and net earnings for 1980 which will outpace that of the previous year. The expanded cash flow together with bank borrowing should be sufficient for our planned program for 1980. However, we are seeking alternate ways of funding our active land acquisition and exploration programs in addition to development projects for this and future years. In view of the foregoing, your Directors will be looking into the prospects for recapitalizing the share structure by the creation of yet an undetermined number of preferred shares to be reserved for future transactions.

Management has reviewed the prospects for 1980 and is proud to announce an exciting year. The first quarter was capped with twenty-one successful gas wells drilled at Boyer, one gas well at Joarcam and two new oil wells at South Waskada, Manitoba without a failure. The second quarter will see the start of a ten to twelve well development program at Provost, coupled with battery and flowline consolidation to accommodate casinghead gas sales. At South Waskada, the two newly drilled oil wells will be completed and placed on production and based on the results of production tests, a development drilling program will be initiated.



Left to right: Top: Bonnie Hall, Office Supervisor, Sharon Morris, Land Records, Bernie Soubolsky, Accounting. Bottom: Rhonda Watkins, Bookkeeper, Danita Dick, Receptionist.



Left: V. Freeman Maxwell, Chief Engineer;
right: Dennis E. Hall, Field Supervisor.

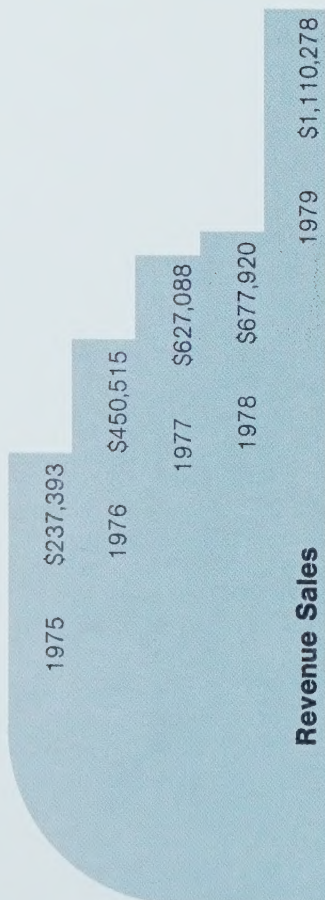
Two wells are scheduled to be drilled at Joarcam late in the year and two wells are budgeted for drilling in Saskatchewan about mid-year. Several wells will be drilled as follow-up programs to recent discoveries and the success of those will determine the number of others. As the Company has several farmout proposals under review, we can expect to see a number of wells drilled assuming acceptable terms are negotiated. In all we look forward to a fifty to sixty well program during the year.

At year-end, Omega encountered a regrettable situation with the resignation of Ernie Braithwaite and subsequent to that, the resignation of Henry Higgins. Both have been directors of the Company since the takeover in 1974. Mr. Braithwaite and Mr. Higgins resigned due to conflicting business interests and they will be dearly missed, as they provided exceptional guidance and counsel during a period when every decision was vitally important to the Company's well-being. Mr. Evans, Vice President of Exploration, resigned at the end of March to take up private real estate interests. To replace Mr. Braithwaite and Mr. Higgins, Mr. Donald Mawdsley has agreed to his appointment to the Board until the annual meeting.

Management is grateful to the Company's shareholders for their continued support, but especially to the small and dedicated staff of employees. We can all express our sincere appreciation for the contribution of Omega's personnel for their loyalty and unyielding pursuit for greater goals.

On Behalf of the Board,

T. J. Hall
President
Calgary, Alberta
April 30, 1980



review of holdings

Boyer, Alberta

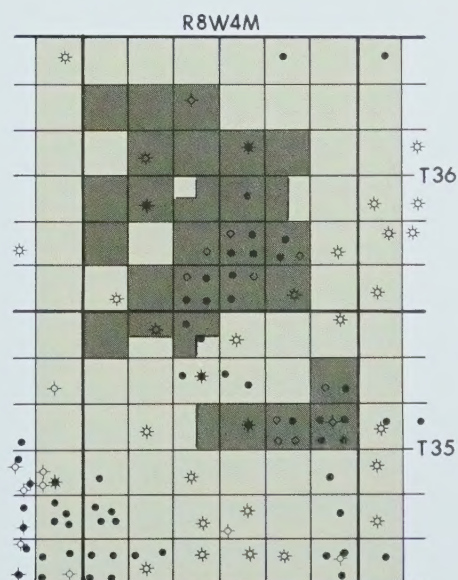
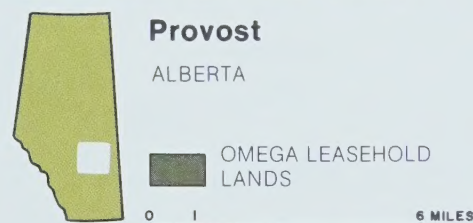
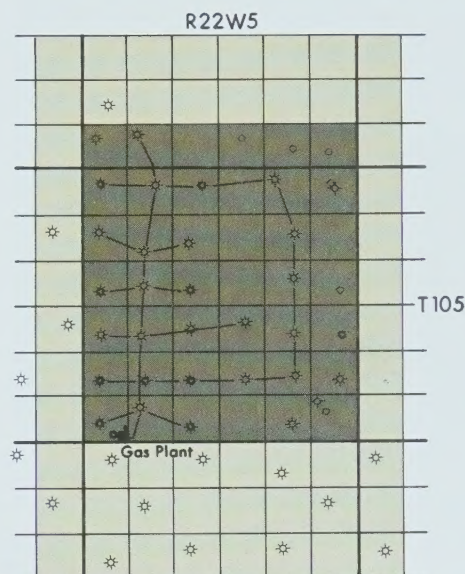
The Company owns a 72% interest in 26,880 acres of Bluesky - Gething gas rights and holds a 100% interest in all other rights over the same block of land. The acquisition of this property included six shallow gas wells and subsequent to that, we have drilled two new wells in 1979 and twenty-one new wells in the first quarter of 1980. Twenty-one of these wells are already connected to the gathering system and gas plant. Eight wells remain shut-in until December of this year. Drilling will begin in December and it is expected that between ten and twelve additional wells will provide sufficient deliverability to properly deplete this gas reserve. Newly established reserves will be recognized by the Purchaser and deliveries from these additional reserves will commence flowing in November, 1980. Our current estimate of deliverability of all twenty-nine wells is in the order of 6.0 mmcf/d. Proven and probable reserves are currently estimated to be 57.6 BCF, with considerable upside potential in the Gething zone.

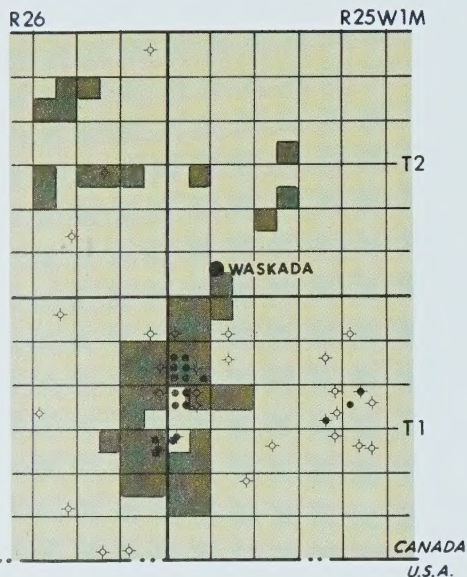
West Provost, Alberta

The Company owns interests varying between 24.5% and 100% in approximately 16,640 acres in this area of east central Alberta. Twenty-two successful wells have been drilled on the Company's acreage, proving up gas and oil reserves over a substantial portion of these holdings. Of the twenty-two wells, two are shut-in gas wells, two are suspended gas - oil wells and eighteen are pumping oil wells. Oil production varies from 5 barrels per day to 100 barrels per day per well, depending on the nature and development of the oil producing sand. Several offset locations have been staked for drilling during this summer season. A substantial capital investment has already been committed to a battery consolidation program and a gas conservation facility for construction during the current year. A pilot waterflood study is still under review and the results of that program will not be available until later this year. Omega's current objective for the Provost property is 1,000 barrels of oil per day and 2.0 million cubic feet of gas per day by year-end.

Joarcam, Alberta

Omega has interests in some 25,440 acres of P. & N.G. rights varying between 10% and 50% where a total of three gas wells have been drilled over the past year.



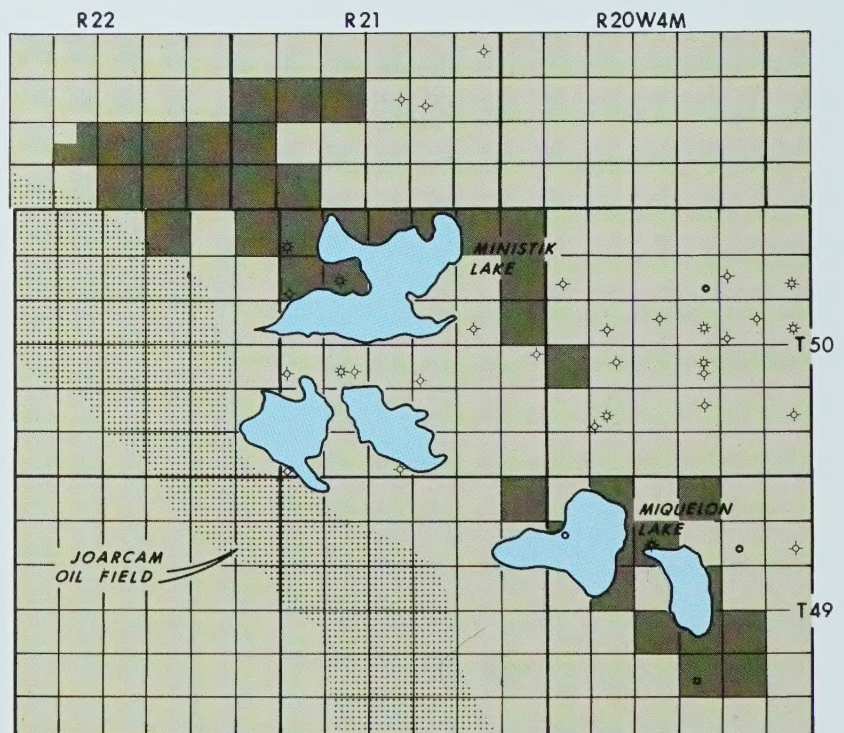


The main zone of interest consists of three gas bearing sands within the Viking horizon. Three other gas zones have been encountered in one of the new discoveries. Reserve estimates are not reliable at this time, considering the number of wells spaced over this large block of Crown land. Two wells are scheduled for drilling in the fourth quarter of 1980 and one well in the third quarter. A gas sales contract is currently under discussion with a local purchaser; however, it is assumed that these reserves will not be placed on production before November, 1982.

Waskada, Manitoba

The Company owns a 100% interest in a number of unrelated freehold leases covering an area of 7,200 acres in the southwest corner of Manitoba. A small oil pool was discovered several years ago and is now producing under a partial waterflood program. Of the five producing wells, four are being influenced by the secondary recovery program. In addition, two 100% owned wells were drilled and are awaiting completion as two newly discovered oil wells. This discovery is located approximately one mile south of the producing pool and is believed to be on a separate geological feature. Following completion and testing, we expect to drill one or two step-out wells to determine the extent of this oil accumulation.

Omega's holdings in and adjoining the discovery comprise 2,240 acres of 100% owned lands.



Sedalia, Alberta

This property consists of 5,440 acres of P. & N.G. rights in which the Company owns 100% working interest. Three Viking gas wells are now on stream producing approximately 1.0 million cubic feet per day. One additional well will be required in 1981 to maintain deliverability. The gas is processed through a small gas plant in which Omega has a 19.2% interest.

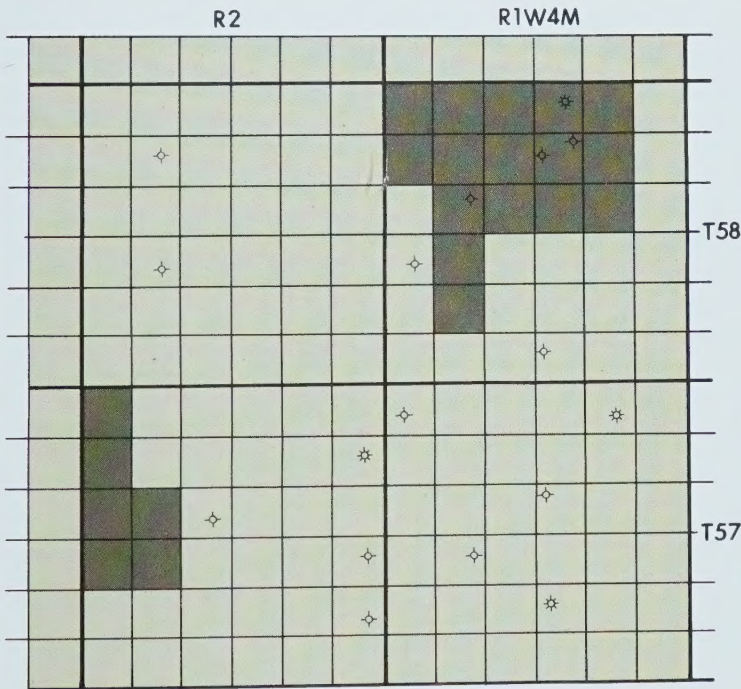
Frog Lake, Alberta

A very interesting natural gas discovery was made during the year on a farmout of a six section block owned 100% by the Company, thus reducing the Company's interest to 50%. Subsequent to the discovery and completion of an extensive seismic program, Omega participated in the purchase of two Crown licences and four Crown leases thus increasing its holdings to 50% in 14,080 acres.

Several target sites have been selected and a winter drilling program will determine the extent of this gas bearing property.



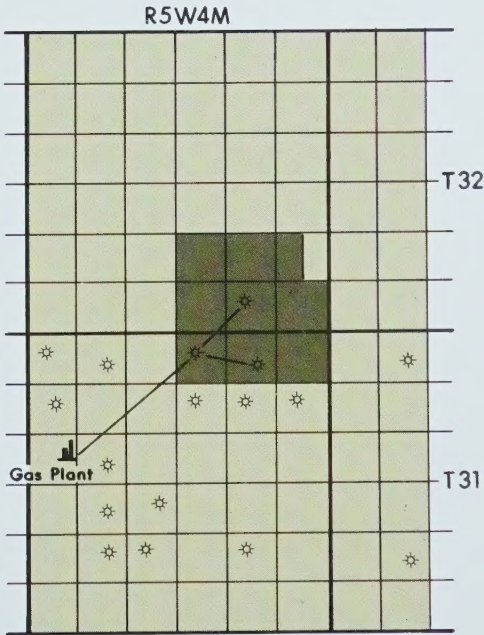
Workover — Provost 10-24-35-8.



Sedalia
ALBERTA

OMEGA LEASEHOLD
LANDS

0 1 6 MILES





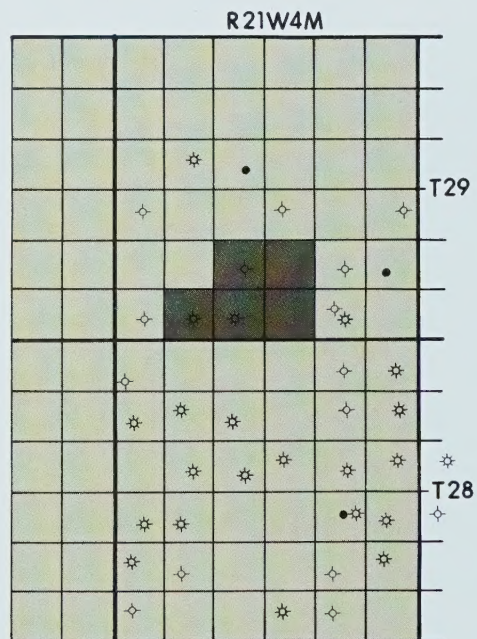
Drilling Provost 10-15-36-8.

Wayne Area, Alberta

Two dual zone gas wells were drilled during the summer of 1978 to evaluate a 3,200 acre block of land in which Omega has an interest varying between 15 and 30 percent. Both wells have remained shut-in due to marketing conditions. The 7-5-29-21 well was recently sand fractured for the purpose of proving deliverability. The 6-4-29-21 well will receive a similar treatment to improve the deliverability of the Viking sand. Following this, Omega will submit a drainage application to the Energy Resources Conservation Board to request a share of the gas market of offsetting wells. If this application is denied, the earliest forecast for deliveries is scheduled to begin in November 1981.

Other Properties

Omega has a substantial number of Crown and freehold parcels throughout Alberta, Manitoba and Saskatchewan, several of which are subject to farmout offers. These properties are currently being evaluated and any progress toward having wells drilled at no cost to the Company will be announced in subsequent reports.



Wayne

ALBERTA

OMEGA LEASEHOLD LANDS

0 1 6 MILES



review of operations

Production

During 1979, the Company continued its development program throughout east central Alberta. All but two of the Company's twenty-four wells were drilled in this area, yielding twelve oil wells and five gas wells. Two gas wells were drilled at Boyer in northern Alberta.

In conjunction with development of land holdings, the Company successfully improved its land inventory by purchasing Crown leases and acquiring freehold acreage. Virtually all of the additions to net land holdings occurred in Alberta during 1979. This remains to be the main area of activity of the Company and forecasts for 1980 and 1981 indicate no substantial change will occur over previous years. Production revenue increased 84% to \$897.1 thousand during 1979, primarily as a result of oil development at West Provost. Only modest gains were made from Boyer gas sales where gas started flowing to market at the end of June but due to numerous shut-down periods caused by start-up problems in the new compressor plant, net revenue was adversely affected. Only minor improvements in cash flow resulted from increased prices of crude oil and natural gas sales.

Drilling

1979 was undoubtedly a rewarding year in drilling activity, surpassing the previous year with an increase of 71% for a total of twenty-four gross wells. This active program was supported by continued employment of two drilling funds and a substantial injection of funds through a \$6.1 million underwriting of common shares during the last quarter of 1979.

Projections for 1980 are indicating another banner year of fifty to sixty wells. Twenty-four wells have already been drilled during the first quarter without experiencing a failure. The main area of activity during the remaining months of 1980 will be concentrated at West Provost, Joarcam and Waskada unless new developments dictate otherwise. The accompanying table provides a four year history of drilling activity.

Drilling and Exploration Activities

During the years shown below, Omega drilled or participated in the following wells:

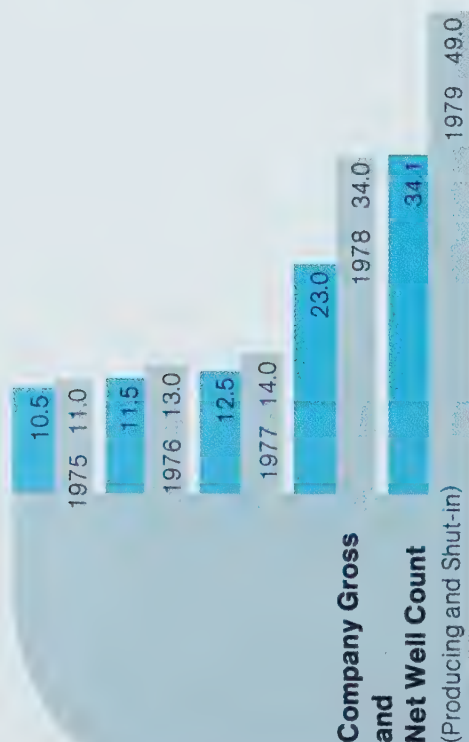


Laying 6" Boyer Pipeline.

	Year Ended December 31,							
	1976		1977		1978		1979	
	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells
Gas	—	—	1.0	1.0	5.0	2.0	7.0	2.8
Oil	1.0	1.0	—	—	6.0	3.0	12.0	9.8
Dry	—	—	1.0	0.5	3.0	1.1	5.0	2.0
Total	1.0	1.0	2.0	1.5	14.0	6.1	24.0	14.6



Logging operation in Boyer 7-14-105-22.



Land Holdings

Land acquisitions of previous years are proving to be of great benefit to the Company's development program and we have continued to improve and add to these holdings throughout 1979.

This policy has resulted in acquiring additional Crown lands at Boyer, Frog Lake, Provost, Joarcam and several areas in northern Alberta. Omega's net land holdings at year-end were 124,620 acres and have shown further improvement to approximately 150,000 acres at the end of the first quarter of 1980. The accompanying table provides a breakdown of land holdings at year-end.

Land Holdings (acres)

	Gross	Net
Alberta	173,858	110,840
Manitoba	13,465	9,545
Saskatchewan	4,315	4,235
Total	191,638	124,620

The costs of land acquisition, drilling and exploration, and production equipment, for the years indicated, are as follows:

	Year Ended December 31,				
	1975	1976	1977	1978	1979
Land					
Acquisition	\$ —	\$ —	\$175,542	\$ 202,030	\$ 700,606
Drilling and					
Exploration	53,317	54,626	217,915	766,515	2,254,865
Production					
Equipment	62,560	60,367	148,507	153,650	1,090,811
Total	\$115,877	\$114,993	\$541,964	\$1,122,195	\$4,046,282

Reserves

Proven and probable reserves of oil and natural gas show a marked improvement over 1978 year-end figures. Development drilling at Provost combined with improved performance of wells drilled in the previous year was responsible for the increase in crude oil reserves. Exploratory drilling at Joarcam and Frog Lake contributed only a marginal amount to new natural gas reserves. Development drilling of the new discoveries will undoubtedly add substantially to future reserve estimates.

In light of having reserve estimates prepared by Omega's staff engineer, as shown in the 1978 year-end report, the Company has prepared a similar in-house estimate of reserves for the period ending 1979. This information is intended to be used for comparison purposes since no outside consultant's estimates were prepared for the 1978 year. Company estimates of proven and probable reserves show an increase of 62% to 1,748,000 net barrels of crude oil and a 27% increase to 47 billion cubic feet of net gas reserve as compared to the previous year.

Omega's consultant, D & S Consultants (1974) Ltd., has prepared an estimate of Company holdings including the present worth values as of February 15, 1980. No comparable reserve estimates are available for the previous year.

Petroleum and Natural Gas Reserves As at February 15, 1980

	Gross Reserves		Net Reserves	
	Petroleum (bbls.)	Natural Gas (MMcf.)	Petroleum (bbls.)	Natural Gas (MMcf.)
Proven Remaining Reserves	656,912	37,052	662,498	28,345
Probable Additional Reserves	160,600	14,774	55,464	9,929
Total Proven and Probable Additional Reserves	<u>817,512</u>	<u>51,826</u>	<u>717,962</u>	<u>38,274</u>

Present Worth of Future Oil and Gas Net Production Revenue Discounted at

	0%	12%	15%	20%
	(000's)			
Proven Remaining Reserves	\$ 90,460	\$29,076	\$24,205	\$18,465
Probable Additional Reserves	<u>34,121</u>	<u>7,927</u>	<u>6,390</u>	<u>4,551</u>
Total Proven and Probable Additional Reserves	<u>\$124,581</u>	<u>\$37,003</u>	<u>\$30,595</u>	<u>\$23,016</u>



Fracturing Boyer 7-11-105-22.

OMEGA HYDROCARBONS LTD.**consolidated balance sheet***As at December 31, 1979***ASSETS**

	1979	1978
CURRENT ASSETS		
Cash and term deposits	\$2,424,677	\$ 52,079
Accounts receivable	818,245	930,048
Income taxes recoverable	80,432	34,782
Current portion of notes receivable (note 2)	52,833	52,833
	<u>3,376,187</u>	<u>1,069,742</u>
NOTES RECEIVABLE (note 2)	<u>609,000</u>	<u>77,335</u>
FIXED ASSETS		
Oil and gas properties together with exploration, development and equipment thereon, at cost	6,590,009	2,539,749
Accumulated depletion and depreciation	(931,137)	(761,035)
	<u>5,658,872</u>	<u>1,778,714</u>
OTHER ASSETS		
Drilling and other deposits	24,512	24,512
	<u>\$9,668,571</u>	<u>\$2,950,303</u>

LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness	\$ —	\$ 117,316
Accounts payable	1,405,286	1,058,882
	<u>1,405,286</u>	<u>1,176,198</u>
BANK PRODUCTION LOAN	<u>—</u>	<u>300,000</u>
DEFERRED GAS REVENUE	103,394	50,447
DEFERRED INCOME TAXES	<u>150,100</u>	<u>152,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 3)		
Authorized		
5,000,000 Common shares of no par value		
Issued		
4,183,906 (1978 — 3,083,906) Shares	8,426,016	2,015,961
DEFICIT	(416,225)	(744,303)
	<u>8,009,791</u>	<u>1,271,658</u>
	<u>\$9,668,571</u>	<u>\$2,950,303</u>

Approved by the Board



Director



Director

OMEGA HYDROCARBONS LTD.**consolidated
statement of earnings and deficit***Year ended December 31, 1979*

	<u>1979</u>	<u>1978</u>
REVENUE		
Oil and gas sales, net of royalties	\$ 897,088	\$ 487,522
Other oil and gas operations	121,552	161,386
Interest income	91,638	29,012
	<u>1,110,278</u>	<u>677,920</u>
EXPENSES		
Production	231,026	114,214
General and administrative	117,766	92,798
Interest	123,938	7,973
Depletion	99,800	58,800
Depreciation	70,302	18,717
	<u>642,832</u>	<u>292,502</u>
Earnings before income taxes and extraordinary item	<u>467,446</u>	<u>385,418</u>
INCOME TAXES		
Deferred	219,800	165,600
Alberta Royalty Tax Credit	(80,432)	(35,018)
	<u>139,368</u>	<u>130,582</u>
Earnings before extraordinary item	328,078	254,836
EXTRAORDINARY ITEM		
Recovery of deferred income taxes	<u>—</u>	<u>13,600</u>
NET EARNINGS	328,078	268,436
Deficit at beginning of year	(744,303)	(1,012,739)
DEFICIT AT END OF YEAR	<u>\$ (416,225)</u>	<u>\$ (744,303)</u>
NET EARNINGS PER COMMON SHARE, based on weighted average number of shares outstanding		
Earnings before extraordinary item	<u>\$.10</u>	<u>\$.08</u>
Net earnings	<u>\$.10</u>	<u>\$.09</u>

OMEGA HYDROCARBONS LTD.**consolidated statement of
changes in financial position***Year ended December 31, 1979*

	1979	1978
WORKING CAPITAL DERIVED FROM		
Operations		
Earnings before extraordinary item	\$ 328,078	\$ 254,836
Items not involving working capital		
Depletion	99,800	58,800
Depreciation	70,302	18,717
Deferred income taxes	219,800	165,600
Amortization of debenture issue expenses	—	3,552
	717,980	501,505
Issue of common shares (note 4)	6,188,355	117,000
Bank production loan	—	300,000
Deferred gas revenue	52,947	50,447
	<u>6,959,282</u>	<u>968,952</u>
WORKING CAPITAL APPLIED TO		
Fixed assets	4,050,260	1,128,281
Notes receivable	531,665	20,668
Bank production loan	300,000	—
Debentures — converted	—	43,500
— retired	—	49,500
	<u>4,881,925</u>	<u>1,241,949</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	2,077,357	(272,997)
Working capital (deficiency) at beginning of year	(106,456)	166,541
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u>\$1,970,901</u>	<u>\$ (106,456)</u>

notes to consolidated financial statements

Year Ended December 31, 1979

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Omega Oil & Gas Ltd.

(b) Oil and Gas Operations

The Company follows the full cost method of accounting for costs related to the exploration for and development of oil and gas properties. Such costs, including production equipment, are accumulated on an area of interest basis and are amortized using the unit-of-production method based on estimated recoverable oil and gas reserves in each area or are written off to income if exploration activities in an area are determined to be unsuccessful.

(c) Joint Ventures

Substantially all the Company's exploration and development activities related to oil and gas are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

2. NOTES RECEIVABLE

The notes receivable, due from officers and employees, are non-interest bearing and receivable as follows: 1980 — \$52,833; 1981 — \$211,167; 1982 — \$211,167; 1983 — \$186,666.

3. CAPITAL STOCK

(a) Changes in outstanding common share capital during the year ended December 31, 1979 were as follows:

	Number of Shares	Amount
Balance, December 31, 1978	3,083,906	\$2,015,961
Shares issued		
For promissory notes under the Company's "Share Purchase Plan"	100,000	560,000
For cash on public offering	1,000,000	5,850,055*
Balance, December 31, 1979	<u>4,183,906</u>	<u>\$8,426,016</u>

*net of underwriting commissions and share issue expenses of \$471,645, less applicable income tax benefits of \$221,700.

(b) As of December 31, 1979, 300,000 common shares were reserved under the Company's "Share Purchase Plan" for issue to officers and employees from time to time as determined by the directors of the Company.

4. RELATED PARTY TRANSACTIONS

- (a) The Company has entered into a number of farmin or other similar agreements with Alberta Gas Products System Ltd. ("AGP"), a private company controlled by the president of the Company. Under these agreements, the Company has acquired interests in oil and gas properties held by AGP, with AGP retaining an overriding royalty or other interest in the properties.
- (b) The president of the Company, personally and through AGP, has purchased units in two drilling funds managed by the Company on the same terms and conditions as extended to the other participants in the funds.

5. CONTINGENT LIABILITIES

The Company is contingently liable as guarantor of a bank loan totalling \$150,000 to a drilling fund managed by the Company.

6. STATUTORY INFORMATION

Remuneration paid to directors and senior officers (including all employees) of the Company during 1979 amounted to \$104,753.

Auditors' Report

To the Shareholders of
Omega Hydrocarbons Ltd.

We have examined the consolidated balance sheet of Omega Hydrocarbons Ltd. as at December 31, 1979 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
March 21, 1980

Thorne Riddell & Co.
Chartered Accountants

**OMEGA HYDROCARBONS LTD.
CONSOLIDATED STATEMENT OF EARNINGS**

	Year Ended December 31,				
	1975	1976	1977	1978	1979
Revenue					
Oil and gas sales, net of royalties	\$235,894	\$443,281	\$612,860	\$487,522	\$ 897,088
Interest income	1,499	7,234	14,228	29,012	91,638
Other oil and gas operations	—	—	—	161,386	121,552
	<u>237,393</u>	<u>450,515</u>	<u>627,088</u>	<u>677,920</u>	<u>1,110,278</u>
Expense					
Production	72,593	88,756	98,137	114,214	231,026
General and administrative	31,012	51,216	66,414	92,798	117,766
Interest and expense on long-term debt	27,250	23,315	9,542	7,973	123,938
Depletion	30,032	20,953	50,000	58,800	99,800
Depreciation	22,986	13,116	21,000	18,717	70,302
	<u>183,873</u>	<u>197,356</u>	<u>245,093</u>	<u>292,502</u>	<u>642,832</u>
Earnings (loss) before income taxes and extraordinary items	<u>53,520</u>	<u>253,159</u>	<u>381,995</u>	<u>385,418</u>	<u>467,446</u>
Income Taxes					
Deferred	50,200	118,400	175,000	165,600	219,800
Alberta Royalty Tax Credit	(15,900)	(33,260)	(34,900)	(35,018)	(80,432)
	<u>34,300</u>	<u>85,140</u>	<u>140,100</u>	<u>130,582</u>	<u>139,368</u>
Earnings (loss) before extraordinary items	<u>19,220</u>	<u>168,019</u>	<u>241,895</u>	<u>254,836</u>	<u>328,078</u>
Extraordinary Items					
Gain on repurchase of debentures, net of applicable income taxes	15,307	24,525	500	—	—
Recovery of deferred income taxes	53,200	126,000	175,000	13,600	—
	<u>68,507</u>	<u>150,525</u>	<u>175,500</u>	<u>13,600</u>	<u>—</u>
Net Earnings (Loss)	<u>\$ 87,727</u>	<u>\$318,544</u>	<u>\$417,395</u>	<u>\$268,436</u>	<u>\$ 328,078</u>
Earnings (Loss) Per Share (based on weighted average number of shares outstanding)					
Earnings before extraordinary items	\$0.01	\$0.06	\$0.08	\$0.08	\$0.10
Extraordinary items03	.06	.06	.01	—
Net earnings (loss)	<u>\$0.04</u>	<u>\$0.12</u>	<u>\$0.14</u>	<u>\$0.09</u>	<u>\$0.10</u>

**OMEGA HYDROCARBONS LTD.
CONSOLIDATED STATEMENT OF DEFICIT**

	Year Ended December 31,				
	1975	1976	1977	1978	1979
Balance at Beginning of Period	\$1,836,405	\$1,748,678	\$1,430,134	\$1,012,739	\$744,303
Net earnings (loss)	87,727	318,544	417,395	268,436	328,078
Balance at End of Period	<u>\$1,748,678</u>	<u>\$1,430,134</u>	<u>\$1,012,739</u>	<u>\$ 744,303</u>	<u>\$416,225</u>

**OMEGA HYDROCARBONS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year Ended December 31,				
	1975	1976	1977	1978	1979
Working Capital Derived From					
Operations					
Earnings (loss) before extraordinary items	\$ 19,220	\$168,019	\$241,895	\$ 254,836	\$ 328,078
Items not involving working capital					
Depletion	30,032	20,953	50,000	58,800	99,800
Depreciation	22,986	13,116	21,000	18,717	70,302
Amortization of debenture issue expenses	7,364	10,417	1,015	3,552	—
Deferred income taxes	50,200	118,400	175,000	165,600	219,800
	<u>129,802</u>	<u>330,905</u>	<u>488,910</u>	<u>501,505</u>	<u>717,980</u>
Bank production loan	—	—	—	300,000	—
Issue of common shares	—	70,000	85,000	117,000	6,188,355
Deferred gas revenue	—	—	—	50,447	52,947
	<u>129,802</u>	<u>400,905</u>	<u>573,910</u>	<u>968,952</u>	<u>6,959,282</u>
Working Capital Applied to					
Bank Production Loan	—	—	—	—	300,000
Notes receivable	—	—	56,667	20,668	531,665
Fixed assets	115,877	117,795	545,703	1,128,281	4,050,260
Drilling deposits	—	12,075	5,000	—	—
Debentures — converted	—	—	—	43,500	—
— retired	31,693	72,875	1,500	49,500	—
	<u>147,570</u>	<u>202,745</u>	<u>608,870</u>	<u>1,241,949</u>	<u>4,881,925</u>
Increase (Decrease) in Working Capital	<u>(17,768)</u>	<u>198,160</u>	<u>(34,960)</u>	<u>(272,997)</u>	<u>2,077,357</u>
Working capital at beginning of period	<u>21,109</u>	<u>3,341</u>	<u>201,501</u>	<u>166,541</u>	<u>(106,456)</u>
Working Capital (Deficiency) at End of Period	<u>\$ 3,341</u>	<u>\$201,501</u>	<u>\$166,541</u>	<u>\$ (106,456)</u>	<u>\$1,970,901</u>

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